ARE SAVINGS INCOME—DISCUSSION.

WINTHROP M. DANIELS: In opening the discussion upon the paper that has just been read I feel obliged to preface my remarks with an expression of the great obligations which we are all under to its author. Not only in this instance but in others he has clarified economic problems and concepts; and in the progress making for conceptual freedom in economic theory we are all his debtors.

While I am forced to dissent in part from the specific contention which he raises in this paper, he has by his treatment of the income concept brought out the sharp contrast which from one standpoint exists between items that are commonly blanketed under the term— Income. When the income of an individual or nation is expressed in money terms, the sum covers certain items that connote enjoyment realized during the income period, and also other antithetical items which connote just the reverse—abstinence from present enjoyment. From one standpoint these two sets of items are just the opposites of each other. Is there then any justification for including both in the same concept? Or should we follow Prof. Fisher and make income synonymous only with enjoyment-items?

I believe that there is ample justification for including these seemingly opposed sets of items under a single term—Income. The two sets of items are wholly congruous, if we are trying to measure, not the enjoyment of wealth realized within a certain period, but the net command obtained over wealth within the period in question.

This, I take it, is the concept of income which the accountant and the business man—and generally the economist—has in mind when he speaks of Income. The economic man is not merely a vitalized hedonic meter, interested in measuring only the pleasurable current flowing through his sensorium. He is also a human being interested in the control of new wealth which during a given period comes under his command, whether it be taken in actual enjoyment or in an accretion to his capital and thus destined for actual enjoyment at some future time. He therefore accounts both his savings as well as his spendings in a year as integral parts of his yearly income.

That this is the popular and instinctive concept of income is neatly illustrated by one of the last injunctions Boswell records himself as receiving from Dr. Johnson. "He said, 'Get as much force of mind as you can. Live within your income. Always have something saved at the end of the year. Let your imports be more than your exports, and you'll never go far wrong'."[3] Much has been said about the definition of income. I submit that Johnson was a competent lexicographer and generally used terms in their accepted meaning; and clearly in his view of the matter, savings are a part of income.

Professor Fisher contends that savings or accretions to capital, are not discounted in the same way as items of income destined to contribute to enjoyment. I am unable to see this. I cannot see that the economic destination of items to accrue in future will alter the discount process whether such items are to be converted into enjoyment, or are to be added to capital. Whether such items are to be detached from capital and made to enhance current en-

[3] *Boswell's Life of Johnson,* Birrell's edition, Vol. VI, p. 61.

joyment, or whether they are to continue attached to the parent stock will not affect the method or result of discounting them. That depends wholly on their distance from the present, and on the prevailing rate of time discount.

One other objection which I have to Prof. Fisher's narrowing the concept of income to enjoyment realized in the income period is that it sorts out one aspect—and that a partial one—of Income, and decorates this aspect with the sole and exclusive right to the name—Income. To do this is hazardous. It throws unnecessarily out of alignment economic and legal terminology where an interpretation clause would avoid the difficulty. I am not arguing that good law is necessarily good economics, or *vice versa.* But this much is certain. The legal concept of income cannot be made to square with the restricted content Prof. Fisher allows to the term. Thus in the Index to Howes's useful little manual on "The American Law relating to Income and Principal" the first four entries relate to "Accumulated Income". According to Prof. Fisher, it is a misnomer to speak of accumulated income.[4] If, for example, trustees are permitted temporarily to hold back income from the beneficiary, such sums remain income in the eye of the law, although retained and accumulated for some time.[5]

To mention another unfortunate deduction which flows from Prof. Fisher's view. In the instance cited in his book of an income tax imposed on three brothers, Prof. Fisher inveighs against imposing any such tax on the

[4] "Services and satisfactions, unlike wealth and property, can exist only as flows; a fund of either is impossible". *The Nature of Capital and Income,* p. 52. In this treatise Professor Fisher identifies income with the "services of wealth".

[5] Howes: *The American Law Relating to Income and Principal,* p. 59.

brother who receives a legacy of $10,000 and allows it to accumulate until the capital is doubled. Only after the principal has doubled and its yearly yield is devoted to actual enjoyment, is the tax, in Prof. Fisher's view, justifiable. From the standpoint of financial equity this proposal stands condemned. To exempt from an income tax altogether an individual whose power to support himself and family is thus constantly increasing, while imposing the tax on those of lesser means who do not thus augment their accumulations, is, I submit, a *primâ facie* case of injustice sufficient to bar the restricted concept of income from being adopted in the financial glossary.

Frank A. Fetter: We are discussing a question of terminology but not a question "merely" of terminology. In "the bright lexicon" of the newer economic criticism there is no such word as "merely" in application to questions of terminology. Against such a word the literature of economic thought gives many warnings in the fallacies *resulting from ambiguity of terms.* "Merely" terminological differences soon appear in the form of real and practical differences when ambiguous terms are applied in the discussion of practical questions. Even in this case Professor Fisher has promptly deduced from his peculiar concept of income some peculiar conclusions as to the justice of certain forms of taxation; and at a time when economic theory and financial practice alike are leading to the taxation of the unearned increment on land held for speculation, Professor Fisher is led to condemn both this theory and this practice.

Professor Fisher confesses that his conception is opposed to the usual view of economists, of business men, and of accountants, and that therefore the burden of proof rests upon him. More than that, his denial that

additions to capital are money income is a paradox of the sort that economics is now generally rejecting. It is just such a paradox as that "rent does not enter into price", or that "savings are at once consumed", or that "demand for commodities is not demand for labor"—such paradoxes, once considered to be the quintessence of economic wisdom, are now, by economic criticism, being relegated to the lumber room.

The very title of Professor Fisher's paper presents a terminological question, and is misleading. The subject is not so much "Are savings income?" as, Is an increment in the value of capital in a given period to be considered money income? Whether or not that increment of capital, when it is at the disposal of the owner, will be saved or spent is a later question and not involved in our present inquiry. Our question and our attention may be confined to the period within which the income accrues and matures. Professor Fisher's critics contend for the almost universal business usage of the term income as an increment of business power expressed in money value. What is the kind of income here under discussion? The term "income", rightly or wrongly, is applied to two (indeed, several) different things. We contend that the question here is of money income, whereas Professor Fisher has his attention fixed upon a different kind, namely, psychic income. He apparently agrees that capital as a business concept is the anticipated value or present worth of future psychic incomes. And he therefore concludes that in the period of its acquisition this capital is not money income to its owner. This is a *non-sequitur*.

In Professor Fisher's paper is meant by income evidently psychic income or value of the gratification. He presents us with a diagram which depicts the larger part

of the argument in his paper. But what do those lines mean? In themselves they are but chalk marks. The lines *a, b, c, d,* and *e* in his diagram represent the income when it is detached and converted into enjoyment, when, in so far, the capital ceases to be capital, and is converted into a present realized psychic result. At that moment the line does not represent a monetary income, but a monetary outgo. He is looking at the end and ultimate goal of the valuation process, whereas the business man is estimating the objective income, the money value accruing in the period, regardless of whether that money *will in the next period be saved or consumptively spent.*

The chief reliance of Professor Fisher in his rejection of common practice and common judgment is undoubtedly his belief that the increments of capital value of future periods are not discounted from the present moment as is the psychic income. It may be said that the question is not as to the discounting of future incomes, but as to the view to be taken and the term to be used in reference to past and present increments of value. He says that the increment of value up to date is not income. We say that it is, and, of course, if it is saved, not spent, and is added to capital, it will continue to contribute its portion to the subsequent increments of capital. It is this estimate *up to date* in any accumulative period that is in question here. Treating the past increments of capital as income simply recognizes the increments that have accrued to the moment.

But the capital sums of an accumulating capital, taken at different points of time, are the actuarial equivalent one of another, when viewed from the present moment. The money income at the moment it occurs is the actuarial equivalent of a later larger money income that will result from the saving of the present monetary income.

With this thought in mind it is evident that the incomes *a, b, c, d, e* of the diagram can be treated as Prof. Fisher treats them only on condition that they be consumptively used; in other words, that they be converted at that moment into psychic income. If they are kept by the owner and used normally and rationally, they accumulate in the hands of the owner. If Professor Fisher transfers them to another capital account at that moment, it is simply concealing beneath a new bookkeeping entry a source of additional income for the future. If, therefore, incomes *e, d,* etc., are not detached from the owner's capital, but merely given another entry in the accounts, the curve *N n* would be extended toward the right and upward. The money income of the earlier periods, being saved and added to the capital sum, become themselves the source of new increments of value in the succeeding period. And this shows again that the detached incomes of which Professor Fisher speaks, must be not money incomes, but money outgoes, consumptive expenditure of a part of the capital value.

Indeed, there is here seen a difference between Professor Fisher's mode of conceiving of the problem of income and the mode in business calculations. Professor Fisher is thinking of the income as subjective; business deals with income as objective or as objectively expressed. Professor Fisher thinks of the income as occurring only when it is detached from the capital, a conception true at the moment of monetary expenditure and psychic income. Business thinks of the income for the most part as occurring when it is attached to the owner's capital, a conception true of the monetary income. These two conceptions have perhaps the relation that Professor Fisher elsewhere calls an interaction. Business practice, the logic of which we are defending, treats the income

as occurring within the given period in which it either attaches or is enjoyed as usufruct. When a portion of the capital is spent for gratification, that much money value is detached and becomes psychic income.

It must be recognized that the capitalistic estimate and expression of incomes is not an ultimate psychological analysis of the problem of value. It is an estimate of income in objective terms, but an estimate at once logical in its place and indispensable in practice,—a statement probably true of the whole "cost of production" conception when rightly limited and understood. Professor Fisher's use of terms flies in the face of usage. While thinking of the income as detached value, he ignores the significance of the present and past attached value. Once a disbeliever in psychic income, he now, with the zeal of an apostate, becomes intolerant of any other conception even when monetary income is the subject under discussion. Is a thousand dollars in money received as a gift not an income when it is received? Is a ten-thousand-dollar estate received by legacy not an income to the beneficiary? Is a hundred dollars earned within this month by personal service not income because it is not yet enjoyment? Is the hundred dollars interest received from a mortgage or the hundred dollars rental received from a farm not income? To all these receipts Professor Fisher must deny the name of income for the same reason he has denied it in his discussion and in his book. He does so deny, defending a conclusion out of harmony with common usage and theoretical expediency, a conclusion only to be accounted for by his ambiguous use of the word income as both monetary and psychic.

A. W. Flux: I desire to express my appreciation of the valuable aid rendered to the clear understanding of the subject by the modes of presentation adopted by

Professor Fisher, but wish at the same time to call attention to two points which have been mentioned in the course of the morning.

The first is Professor Fisher's treatment of depreciation. I may suggest that, as the depreciation fund is a mere question of accounting, it is no new capital, being merely the recognition of the fact that the original capital had not been kept intact. It is convenient to proceed as if the opposite were true, but merely convenient. The disappearance of the capital originally present, and the creation of a depreciation fund, are concurrent processes in reality. Hence some part of the argument based on the treatment of depreciation as something set aside from time to time cannot be conceded to have its apparent force. I wish to direct attention also to a part of Professor Fetter's claim, in which he seems to lay stress on that aspect of the changes in the fund of capital which is concerned with the building up of the interest from the parent stock, as well as, or even instead of, the view presented by Professor Fisher, of a change in which the approach of the time of realization of the services which the capital is expected to render, affects the valuation placed on that expectation. Professor Fisher deals with the changing capital values as related to future utility under varying discount, while Professor Fetter seems to desire to regard the changes as due to influences proceeding from the opposite end, creating income by applying capital in effective methods. It appears as if, in this case, the coördinate importance of the consideration of cost and utility, which Professor Fetter will not admit in the value problem, is nevertheless the idea the validity of which in the field of the morning's discussion he is prepared to champion. I hope the omen is significant of a change of views in regard to value and cost.

John Franklin Crowell: The value of this distinction between kinds of income is seen in comparing credit with cash assets. Credit income is book income, the accountants' expression for net income at the time of making up his balance sheet. Cash income is bankable assets, on which one can actually draw for cash expenditure. The credit income has first to be converted into cash or its equivalent. The distinction appears clearer when we apply it to a given case. A business man says, "My year's net income is $40,000", while part only of it is in cash assets, and most of it in inventoried goods not yet converted into cash. But when the goods are once "detached", that is, turned into cash by sale, their real income character is apparent. For this reason much importance has to be attached to the part which detachment plays in determining real income. For it is thus that capital is transferred or transformed into income. The undetached gains of business are still capital. Detached, they stand on the other side of the account and become a liability—a real income against which one may draw in expenditure.

Maurice H. Robinson: While I find myself in general agreement with the conclusions which Professor Fisher has reached as a result of his investigations into the nature of capital and income, I think it would be a serious mistake in theory as well as in logical method to attempt to deduce from those conclusions the principles that underlie an equitable system of taxation. An equitable system of taxation is, of course, one that distributes the cost of administering a government equitably among the members of the state. Such a system is not necessarily one that takes equal proportions of all incomes. It may be that in certain cases and under certain circum-

stances an equitable system will take a larger proportion from the incomes derived from capital than from those derived from labor; or from incomes derived from capital invested in certain kinds of productive enterprises than from capital invested in certain other kinds. President Hadley used to define an equitable system of taxation as one in which the costs of government are placed upon the shoulders of those receiving its benefits in such a way that the respective burdens can be borne with equal ease. I confess that his views appeal to my own standards of equity. Such a system would justify a progressive income tax and the omission of the smaller incomes altogether. It would not, it will be observed, take equal proportions from all classes of incomes. In other words, an equitable system of taxation is one that is based upon social ideals of equity as tested by practical experience in their application and not upon the exact determination of all incomes and their taxation on a percentage basis. Those who hesitate to accept the results of Professor Fisher's analysis lest they be surreptitiously led into serious errors in taxation or social reform may rest assured that any errors that they may hereafter commit in these fields will in the final analysis be found to be due, not to their ideas regarding the nature of capital and income, but rather to the acceptance and application of untenable theories in regard to these subjects. On the other hand, it seems to me that Professor Fisher would make an equally serious mistake in theory should he assume that the unequal taxation of incomes is on that account necessarily inequitable.